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SUBJECT: Scen setter for EEB A/S Jose Fernandez

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¶1. (SBU) Mission France warmly welcomes your visit on December 7-8.

You will arrive half way through President Nicolas Sarkozy's five-year term, a period marked by strong coordination between the U.S. and France on key strategic issues. The financial crisis and subsequent G20 response, as well as the lead-up to the Copenhagen climate change summit, have tested this relationship and shown that we can find ways to work together despite fundamental differences on some issues.

#### US-French Relations

¶2. (SBU) Since the election of President Sarkozy in 2007 and the election of President Obama in 2008, the U.S.-French bilateral relationship has become arguably the best it has ever been, with a robust political relationship buoyed by renewed support for the U.S. in public opinion. Sarkozy is a fierce advocate for French interests; is committed to pushing France forward as a global leader; and, believes he can best advance French interests by working in tandem with the United States rather than in opposition to us. Politically robust government-to-government relations do not mean, however, that France always aligns itself with the United States. Sarkozy equates the health of the relationship with the strength of U.S.-French political and strategic cooperation in other parts of the world, rather than with the economic relationship.

¶3. (SBU) Franco-American economic ties are robust. Bilateral trade, investment and affiliate sales amount to an estimated \$1.3 billion per day. France is the United States' 8th largest trade partner, and the United States is France's 6th largest trade partner. The U.S. is the top destination for French foreign investment, with direct investment stock of \$163 billion. There are approximately 2,300 French subsidiaries in the U.S. that provide more than 520,000 jobs and generate about \$235 billion in turnover. The U.S. is in turn the largest foreign investor in France, with \$75 billion in investment, and turnover of about \$228 billion. U.S. firms employ 650,000 people in France. This Embassy is committed to further enhancing these economic ties.

#### State of the French Economy

¶4. (SBU) France's economy has outperformed most other EU member states during the financial crisis, due largely to France's extensive social safety net (e.g. long-lasting unemployment benefits and training programs) which acts as an automatic stabilizer. But government stimulus has also played an important role. The Sarkozy administration pushed through a 26 billion euro stimulus package, which -- with automatic stabilizers -- equals 2.5 percent of gross domestic product (GDP). More recently, the government announced a 35 billion euro "grand emprunt" (a "recovery bond" offering) to stimulate research and investment in innovative industries. The French economy grew at an annual rate of 1.2 percent in the second quarter, driven largely by a decline in the trade deficit, and by government consumption. Unemployment increased to 9.1 percent on average, compared to 7.4 percent in 2008, with a 23.9 percent youth

unemployment rate. To date, secondary effects of lower employment rates have not significantly weakened what until now has been remarkably resilient consumer demand. The dark side of all this, however, is the soaring budget deficit, which has doubled and will reach 8.2 percent of GDP this year. . Because of this, Sarkozy continues to press for reforms that reduce the burden of the state (reducing the civil service by attrition, consolidating sub-national administrative layers) as well as encourage small and medium-sized businesses (reduced paperwork, tax exemptions, financing) and provide investment incentives.

#### The G20 Agenda

15. (SBU) France strongly supports the G20 process as the premier forum for treating global economic issues, but takes a sharply different stance on some G20 issues than the United States. The French have aggressively advocated for improved global economic governance (tighter regulation of the financial sector, and international norms to discourage excessive bonuses for bank executives), and have been critical of the U.S. or "Anglo-Saxon" economic model, which they argue has been discredited by the crisis as dangerously underregulated. Before the G20 summit in Pittsburgh, France, along with Germany, sought a common EU position on financial regulation in an unsuccessful attempt to influence the outcome of the summit. France has publicly downplayed its own reliance on the social safety net and government stimulus programs to support economic demand. Despite its support for the G20, France believes there may well be a continuing role for the G8 in certain areas, and senior officials have told us that G8 members have to look carefully at what to do with the many issues and partners involved in the G7, G8 and other formats. France will take over lead for the G8 and G20 in 2011.

#### Climate Change

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16. (SBU) The environment is a signature issue for the Sarkozy government, which created a new "super-ministry" of sustainable development, consolidating the ministry-equivalents of energy, infrastructure, transport and environment into a single body. The goal was to internalize environmental factors into decision-making on these policies. Last year, France successfully guided EU member state negotiations on the EU's climate change and energy package, committing the EU to reduce its greenhouse gas emissions by 20 percent by 2020 compared to 1990 levels. The French, especially President Sarkozy and Environment Minister Borloo, were critical of the USG approach to climate change and Copenhagen, saying that the U.S. legislative process is too slow. They also charged that the Waxman-Markey cap-and-trade bill will produce insufficient reductions by 2020. France has meanwhile sought to forge alliances to achieve binding agreements at Copenhagen. The Sarkozy administration has introduced a bill into the French Parliament to implement a carbon tax starting from January 1, 2010.

#### Doha

17. (SBU) France pushed back hard against emerging economies at the July 2008 Doha talks over the issue of market access, but then reversed itself at the end of the year, advocating rapid conclusion of the Doha package. President Sarkozy has called for conclusion of the round to avoid any further steep declines in trade. France fears that emerging economies (India and China) could legally raise their current low applied tariff rates to the higher bound tariff rates. Locking in lower rates seems to be the GOF's priority, even if the current deal offers little else. French officials have also publicly blamed the U.S. for the failure to reach agreement on Doha. We have made clear that what is on the table is not sellable to Congress. Privately, French officials complain that they do not understand the United State's current objectives or negotiating strategy on Doha.

#### Intellectual Property Rights

18. (SBU) The French government is often at the cutting edge of intellectual property protection in Europe and recently enacted a

controversial "graduated response" law (the UK and EU drafted similar laws) that provides for an illegal downloader to lose internet access for up to one year after two warnings. French courts also back rights holders in IPR cases, such as Louis Vuitton's successful suits against Ebay and Google over copyright infringement, and French publishers will likely be successful in their current suit over the Google Books program. With an immense amount of intellectual property to protect and one of the worst illegal download rates in the Europe, the French will continue to push the envelope in Europe in IPR enforcement.

#### Bilateral Trade and Investment Issues

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¶9. (SBU) Several bilateral trade and investment issues have captured the attention of leaders on both sides. Senior French business officials have complained that the U.S. Air Force's KC-X Tanker draft procurement proposal is unfair and stacked in favor of Boeing. The Air Force reopened its bidding process after the original selection of Northrup-Grumman /EADS was overturned. French business officials complain that the new draft RFP sets standards that heavily favor Boeing's offer. Both aircraft would be assembled in the United States and both have significant American content.

¶10. (SBU) EDF recently bought a 49.9 percent stake in the existing nuclear assets (five reactors) of Constellation Energy Nuclear Group (CEG), based in Baltimore, Maryland. After rocky negotiations over the summer, the State of Maryland approved the acquisition in early November. It is worth mentioning, however, that the new CEO of EDF, Henri Proglio, told the press he has not yet fully endorsed the move and questions if it was in the company's best interests.

¶11. (SBU) GE France lost it's 4 billion euro bid to buy Areva T&D (Transmission and Development), the non-nuclear arm of Areva Group. The other bidders were Toshiba, backed by the Japanese sovereign fund INCJ, and a joint bid by Alstom and Schneider Electric. Areva (or more likely President Sarkozy) chose the Alstom/Schneider Electric French bid, despite indications that its initial offer was inferior from several standpoints.

#### Agricultural Issues

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¶12. (SBU) Once a leading supporter of agricultural biotech in Europe, the Sarkozy administration has banned the cultivation of genetically modified organisms (GMOs). Some GMO imports are permitted as animal feed subject to approval by the European Commission. However, Europe's zero-tolerance for traces of GMOs caused U.S. soy shipments to be blocked this year at European ports when minute traces of GMO corn-dust was found in soy shipments. The European Commission resolved the issue by approving the relevant

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biotech products for importation at the end of November. This issue is likely to recur with new biotech products.

#### Paris Club

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¶14. (U) The French Finance Ministry provides the secretariat services for the "Paris Club," which meets 10 times each year under French chairmanship. Founded as an ad-hoc group of creditor governments during the 1956 Argentine debt crisis, the Paris Club is an informal group of 19 creditor governments who jointly negotiate with debtor governments. This ranges from simple debt rescheduling to debt relief under the HIPC (Highly Indebted Poor Countries) initiative and is predicated upon the existence of an active IMF economic adjustment program.

#### Development Assistance and Food Security

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¶15. (SBU) France is a major provider of development assistance around the world. Although we have some different priorities, USAID and French development agencies cooperate well in the field, and there is great potential for coordination and cooperation on development aid issues globally. President Sarkozy was the first world leader (in 2008) to call for a global partnership on food security, and France will be an active partner in carrying out the

food security commitments made at the G8 summit in L'Aquila Italy in May 2008, which Secretary Clinton has endorsed as a U.S. diplomatic priority.

#### Afghanistan

¶16. (SBU) France makes significant contributions to the NATO -led International Security Assistance Force in Afghanistan, (ISAF) including deployment of troops and now French gendarmes for police training, and will provide approximately 40-45 million euros of development assistance in gendarme forces, embedded training programs, and bilateral assistance in Kapisa and Surobi provinces, the regions where their troops are engaged. France has not yet contributed to the development trust funds established to stand up and sustain the Afghan National Army and law enforcement forces training (ANA and LOFTA funds).

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